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SHORT-TERM PROSPECTS FOR BRAZIL
UNDER GOULART

Submitted by the
DIRECTOR OF CENTRAL INTELLIGENCE

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SHORT-TERM PROSPECTS FOR BRAZIL UNDER GOULART

THE PROBLEM

To estimate the outlook for Brazil up to the October 1962 elections, with special reference to the orientation and prospects of the Goulart government.

CONCLUSIONS

1. The constitutional compromise which enabled Goulart to succeed to the Presidency after Quadros' resignation in August 1961 has left a confused atmosphere in which the locus of executive power is uncertain. Nevertheless, Goulart has emerged as considerably more than a figurehead President and his principal concern will be to maintain and, if possible, to increase the prestige and power of the Presidency and of his Brazilian Labor Party (PTB). To this end, he will exploit his influence in labor and leftist circles while seeking to avoid undue offense to conservative elements, particularly the military, who continue to view him with suspicion because of his long record of collaboration with the Communists. Meanwhile, the various political forces will be jockeying for control of the executive power and for victory in the October 1962 elections. (*Paras. 5-11, 15-16, 19, 23-24*)

2. In these circumstances the short-range prospects for the growth of Communist influence in Brazil are favorable. The Communists will benefit by the toler-

ance not only of Goulart but of many other Brazilian political leaders. They will probably encounter little effective competition or governmental restriction in their efforts to entrench themselves in areas where agrarian and social unrest is most acute and will also benefit to some extent by the entry of additional party members or sympathizers into the bureaucracy. However, it is unlikely that Communist infiltration of the government will go so far as to give the Communist Party a significant influence on the formulation and execution of policy within the period of this estimate. (*Paras. 12, 18, 25-26*)

3. The initial indecisiveness of the new government and the blow to national confidence engendered by the succession crisis have caused a new decline in Brazil's economic and financial situation. Nevertheless, given the continued disbursement of the credits called for in the May 1961 aid package, the government can probably keep going financially until the fall of 1962, though no substantial im-

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provement in the basic causes of the country's financial disequilibrium is likely. Although legislation on the reforms promised by Quadros and espoused by the current administration will probably be enacted, it is not likely to be sufficient to assuage popular discontent. Thus the regime is likely to be plagued by recurring political crises and possibly by breakdowns in public order. On balance, however, we believe that Goulart and the present constitutional system will probably survive up to the October 1962 elections. It is less likely that the present Council of Ministers will last that long. (Paras. 20-22, 27-29)

4. The present government will continue to emphasize the "independent" character of its foreign policy, but the need for US financing, as well as domestic political considerations, will probably render it less truculent toward the US than was the Quadros administration. Although Brazil has already re-established diplomatic relations with the USSR, development of diplomatic and economic ties with Bloc countries will probably not go much beyond the existing framework. Brazil will almost certainly continue to oppose sanctions against Castro, though if most major Latin American states were disposed to take some limited action, it would probably go along. (Para. 31)

DISCUSSION

I. INTRODUCTION

5. The sudden resignation of President Janio Quadros on 25 August 1961 plunged Brazil into a constitutional crisis. Although Brazilians take considerable pride in the fact that the crisis was resolved without bloodshed, Brazil did suffer a serious national setback, the effects of which will be felt for some time to come. Abroad, Brazil's ability to enlarge its role in international affairs has been reduced, at least for the time being, and inside Brazil the prestige of the armed forces--the traditional guarantors of constitutional order--has been diminished. The political crisis occasioned a loss of public confidence which undermined steps taken by Quadros toward greater financial stability through budget cuts, elimination of import subsidies, and similar short-run reforms. Occupied since it came to office principally with adjustment to a new form of government and a realignment of power groups, the present administration has not moved decisively regarding the array of basic reforms which Quadros promised but was unable to implement. In-

flation is again on the increase and political tensions are rife.

6. Quadros' resignation after only seven months in office appears to have been the reaction of an unstable personality, ambitious for power, but frustrated by the difficulties of coping effectively with Brazil's chronic problems. Some of his reforms had damaged influential special interests; Congress and politicians of all stripes had become disturbed over his growing tendency to centralize power in his own hands; and the normally easy going Brazilians began to resent his efforts to apply stricter moral standards to many aspects of public life. He came under increasingly heavy fire from the military and other conservatives over what they regarded as his partiality for the Bloc and Cuba. Thus, although Quadros had come to office with a popular mandate and great hopes, he found himself laboring in an atmosphere of criticism and obstruction. Always emotional and sensitive, Quadros quit, probably counting on being recalled immediately with strengthened powers. However, to his apparent great sur-

prise, Congress quickly accepted his resignation.

7. In the ensuing political struggle between those who favored constitutional succession and those opposed to Vice President Joao ("Jango") Goulart, civil conflict seemed near. The Ministers of War, Navy, and Air strongly opposed Goulart because of his long record of collaboration with the Communists in labor and politics. Most of the armed forces remained loyal to their ministers. A major exception was the powerful Third Army in Rio Grande do Sul, which supported Governor Leonel Brizola's¹ campaign on Goulart's behalf. Additionally, there were manifestations of indiscipline in other military elements. Over several days it became apparent that both public and congressional opinion backed a solution along constitutional lines, even though Goulart himself was not notably popular. These pressures, combined with divisions within the military, forced the military leaders to accept a compromise.

8. This compromise was embodied in a hastily drawn constitutional amendment which established a parliamentary form of government, patterned along European lines, in place of the traditional Brazilian system in which the Presidency has been predominant. Presidential powers were drastically curtailed and executive power was placed in the hands of a Council of Ministers responsible to the Chamber of Deputies. Goulart accepted this arrangement, and was installed on 8 September 1961 to serve until 31 January 1966. Tancredo Neves, a member of ex-President Kubitschek's Social Democratic Party, became President of a Council of Ministers in which all major parties were represented in proportion to their strength in Congress.²

¹Goulart's brother-in-law and Governor of Goulart's home state of Rio Grande do Sul. Brizola--heretofore unimportant as a national figure--has long been a supporter of leftist and ultranationalist causes.

²Brazil's three principal parties are the Social Democratic Party (PSD), the National Democratic Union (UDN), and the Brazilian Labor Party (PTB). These parties are heterogeneous in makeup and ideology, and party discipline is notably lacking in each.

II. THE CURRENT SITUATION

A. General

9. In the first two months after Goulart assumed office, the Council of Ministers and the Congress were occupied with adapting to unfamiliar roles, and the President was exploring the reorganized system of relationships among the various governmental powers. During this difficult period of adjustment, the new administration as a whole was faced by the same political and economic obstacles which had frustrated Quadros' efforts to tackle basic social and economic reforms. In addition, it was handicapped by less popular confidence and less clear lines of authority than the preceding administration. The resulting lack of action has contributed to a pervasive atmosphere of political uncertainty with particularly adverse effects on the economic situation. However, during the past month there have been some indications that the Council of Ministers may be coming to grips with the most critical immediate problems, notably inflation.

B. President Goulart

10. Goulart has emerged as considerably more than a figurehead President. His ability to use his appointive power has been reinforced by his position as head of the Brazilian Labor Party (PTB). He has been aided by the fact that Prime Minister Tancredo Neves has not chosen to engage in open dispute on the issue of executive powers. Neves is a relatively colorless example of an old-line opportunistic Brazilian politician.

11. There are significant personal as well as constitutional and political limits to Goulart's influence and freedom of action. In part these restrictions stem from his character and reputation. A confirmed opportunist even by Brazilian standards, the wealthy Goulart has yet to reveal any strongly-held political or economic philosophy, and has been frequently linked with corruption. He owes much of his rapid political rise to former dictator Getulio Vargas, who permitted him to build a personal following in the important PTB by the use of government funds and patronage. Even

though Goulart still heads the PTB and has been vocal on behalf of ultranationalist and popular reform issues, some leftist elements continue to suspect his motives.

12. Goulart is not known to be a Communist, but he has a long history of seeking and receiving Communist support, and has given the Communists considerable freedom of action within the labor movement in return for electoral backing. His recent appointments, although designed principally to entrench himself and his party, have included a number of other figures frequently associated with pro-Communist fronts or causes. He has appointed as his own private secretary an avowed Communist, Raul Ryff. In the eyes of conservatives and most of the military, these appointments justify the deep distrust with which they view Goulart, and reinforce their conviction that they must keep a close watch on him.

13. Despite these limitations, however, Goulart has over many years demonstrated a capacity for political survival, shrewd judgment, and expedient action, motivated by strong personal ambition—formidable assets in the arena of Brazilian politics.

C. Political Considerations

14. Any Brazilian administration confronts a wide variety of entrenched interests working at cross-purposes on both the national and state levels. Thirteen heterogeneous political parties, as well as powerful agricultural, commercial, industrial, labor, military, and Church interests, compete for power and influence. The situation is further complicated by the existence of strong regional interests and loyalties which often conflict, notably as between the backward agricultural north and the modern industrialized south. Under the Brazilian federal system, considerable power remains in the hands of the State Governments. The controversial personality of the new President has tended to exacerbate the friction with these powerful interest groups and to restrict Goulart's authority.

15. Conditioned to Brazil's former system of a strong Presidency along US lines, Congress has not yet established the implementing machinery for parliamentary government envisaged in the hastily devised constitutional amendment. Nor have Neves and the Council of Ministers as yet taken any major initiative in the exercise of their newly won executive power. The Council was selected to provide a broad representation of the political parties in Congress, and has thus far shown little ability to undertake strong action on its own initiative. In these circumstances, neither the Congress nor the Council of Ministers appears eager at this time for an open test of strength with the President.

16. The constitutional amendment of September does not clearly spell out the lines of executive authority and this has intensified jockeying along traditional party and special interest lines. Even were the locus of authority clear, the administration would be unable to count on a stable parliamentary majority.³ For the moment, an arrangement between the PSD, of which Neves is a member, and the UDN provides the required majority. However, strong conservative elements in these two parties are particularly unhappy about Neves' apparent submissiveness to Goulart. Meanwhile, the more leftist PTB, apparently taking its cue from the President, has reserved its position toward the Neves cabinet (although supplying two ministers) in order to escape blame for current difficulties.

17. With the approach of the campaign for the October 1962 election, the government has come under increased political sniping from

³PRESENT COMPOSITION OF THE BRAZILIAN CONGRESS

(Party discipline is poor and changes in party affiliation are frequent during parliamentary sessions.)

PARTY	CHAMBER OF	
	DEPUTIES	SENATE
Social Democrats (PSD)	114	20
Democratic National Union (UDN)	72	19
Brazilian Labor Party (PTB)	64	17
Social Progressive Party (PSP)	26	1
Minor Parties	50	6
Total	326	63

all sides. The entire lower house of the legislature, two-thirds of the Senate, and half the State Governors are to be elected. Already, ultranationalists and confirmed leftists, led by Brizola, Governor Borges Teixeira of Goias, and the Communist Mayor of Recife, Miguel Arraes, have formed the extremist National Liberation Front to unite the forces of radical nationalism behind a program for immediate and far-reaching social and economic reforms in an effort to win control of Congress. Meanwhile, former President Janio Quadros awaits an opportune time to return to national political life, possibly in alliance with these leftist forces.

18. The present situation offers increased opportunities for Communist advances. In association with the National Liberation Front and the Peasant Leagues of the northeast, the PCB is in good position to exploit popular discontent over current economic hardships. Meanwhile, the PCB is moving ahead with its campaign to re-establish itself as a legal party. The PCB has attacked Goulart in terms similar to those used against Quadros ("entreguista," or one who hands over the national patrimony to foreigners).

D. The Armed Forces

19. The armed forces remain an important political factor despite serious internal divisions and loss of prestige as a result of their leaders' abortive effort to bar Goulart from office. The military leaders have accepted Goulart as the President, but they still mistrust him, and he knows it. Thus, they constitute a major check on any Goulart disposition to swing Brazil significantly to the left in domestic or foreign affairs. Goulart has been careful to refrain from antagonizing the military. Although he has removed officers hostile to him, he has been careful to replace them, in almost every case, with competent professional officers acceptable to their peers. Nevertheless, military foes of Goulart, including the recently resigned Ministers of Air and Navy, are actively plotting against him and are seeking civilian backing.

E. Economic

20. The serious economic and financial difficulties which had been building up in Brazil over the last few years were abated to some extent in mid-1961, primarily through the negotiation of a \$1.3 billion foreign aid and debt extension package in May. However, the political crisis precipitated by Quadros' resignation led to a new decline. Inflationary pressures, reflected in cost-of-living increases of 39 and 30 percent in 1959 and 1960, respectively, have sharply revived. Over the past 12 months price indexes have risen by 35 percent. Prices on some staples have risen as much as 38 percent since late August, partly in expectation of increases in the minimum wage, which were approved in October. Workers already receiving above the minimum wage have meanwhile struck for commensurate increases to maintain their relative incomes. In the wake of a flight of capital during the crisis, a gold-buying spree, and continuing speculative pressure, the *cruzeiro* has dropped from 260 to about 350 to the US dollar. The *cruzeiro* remains under pressure despite improvement in the basic trade position and the inflow of financial aid under the May 1961 agreement.

21. Neves and the capable Minister of Finance, Moreira Salles, are encountering substantial political obstacles in their efforts to control inflation. They have felt impelled to grant a 40 percent increase in the minimum wage, but even this may not suffice to hold down labor demands. Curbs on easy bank credit are politically difficult to impose and enforce. The monetary authorities have taken some steps to limit money issuance until the end of the year, and new exchange regulations have been issued to curb financial speculation and the depreciation of the currency. However, the modification of the free-exchange system which Quadros had instituted may open the door to a return of the costly import subsidies which are popular with the public at large. In addition to keeping credit expansion under control and restraining speculation, the government is seeking to reduce the budget deficit. It is also pressing for continuation of external assistance under the May 1961 agree-

ment—principally from the US. The situation is complicated by the fact that since June Brazil has not met some of the conditions laid down by the International Monetary Fund (IMF) in connection with this agreement.

22. It is still too early to assess the effectiveness of the government's emergency measures. There is a continuing threat of strikes for higher wages, and public dissatisfaction over the current high rate of inflation persists. Meanwhile, ambitious plans for putting through agrarian, tax and banking reforms, antitrust and banking legislation, and other measures designed to correct basic weaknesses in the Brazilian economic and financial structure have bogged down as a result of the political preoccupations and uncertainties which have followed Quadros' resignation. On the other hand, the government is pressing Congress to enact a new tax program and is making progress on a constructive coffee policy. The task of remedying traditionally inflationary credit practices, annual budget imbalances, and yearly trade and balance of payments deficits is so large as to presage a long period of continuing economic difficulties.

III. THE OUTLOOK

23. President Goulart is a shrewd and flexible politician who is intent on remaining in office and would like to expand his authority. Although his tendency to rely on political agility as a substitute for policy is likely to handicap him, he can marshal an impressive array of assets. His long identification with organized labor will continue to make him highly acceptable to the left generally—and will also provide him with some leverage in dealing with labor demands. The ultranationalist stand he has taken on such issues as public ownership of key industries and utilities is well-known and popular. He has been largely successful in disclaiming responsibility for Brazil's current difficulties and will benefit from the widespread desire of most Brazilians to avoid another national crisis.

24. Goulart's reputation for leftward proclivities is a liability both in many influential circles and in his relations with other countries important to Brazil, notably the US.

However, he is well aware of this impression and is making some efforts to dispel it. Although the armed forces will continue to watch him closely, the military, for the most part, appear ready to permit Goulart to remain in office so long as he respects the present constitutional limitations on his executive powers and avoids extreme leftist intrigues and alliances.

25. Goulart will probably avoid associations with the Communists or other ultraleftists of a kind likely to stir up strong opposition on the part of the military. By the same token, however, he is unlikely to have any qualms about cooperating with the Communists or their sympathizers when it appears to serve his purpose. His appointments will probably continue to include some individuals who have records of sympathy with the Communists. Despite the criticism now being leveled at him by PCB spokesmen, he will probably continue to take a generally tolerant position toward the party and, where local circumstances justify it, his PTB will continue to work with the Communists in particular elections and on various issues. On occasion, Goulart is likely to advocate policies also endorsed by the Communists, arguing that they should not be allowed to assume leadership of the reform movement by default.

26. Thus the short-range prospects for the growth of Communist influence in Brazil are favorable. The Communists will benefit by the tolerance not only of Goulart but of many other Brazilian political leaders. They will probably encounter little effective competition or governmental restriction in their efforts to entrench themselves in areas where agrarian and social unrest is most acute and will also benefit to some extent by the entry of additional party members or sympathizers into the bureaucracy. However, it is unlikely that Communist infiltration of the government will go so far as to give them a significant influence on the formulation and execution of policy within the period of this estimate. Moreover, the PCB still labors under the handicap of not being a legal party, and though efforts are being made to secure official recognition, it is unlikely that the legal obstacles can be over-

come in time for the Communists openly to run their own candidates in the 1962 elections. They will offset this handicap, as in the past, by some infiltration of the slates of legal parties and by political bargains with opportunist non-Communist elements. The Communists have probably achieved some penetration of the armed forces, principally at the noncommissioned officer level, and this might prove to be a useful asset under conditions of major civil disturbance.

27. In view of the central importance of the economic situation in influencing popular attitudes, much will depend on how much success the government has in obtaining credits, development capital, debt postponements, and other forms of external assistance for Brazil. Given the continued disbursement of the credits called for in the May 1961 aid package, the government can probably keep going financially until the fall of 1962, though no substantial improvement in the basic causes of the country's financial disequilibrium is likely.

28. Although legislation on the reforms promised by Quadros and espoused by the current administration will probably be enacted, it is not likely to be sufficient to assuage popular discontent. Powerful special interest groups will oppose significant reforms or any far-reaching attack on the root causes of Brazil's economic difficulties. Thus we believe that the regime is likely to be plagued by recurring political crises and possibly by breakdowns in public order.

29. In such crisis situations, Goulart's actions would be of major importance. His first inclination would be to ride out the storm, taking no action that would jeopardize the electoral chances of his partisans. If he felt compelled to take affirmative action, he would probably be disposed to press for increasingly leftist solutions and to seek greater Presidential powers. He would nevertheless, probably attempt to work out with the military leaders some sort of agreed action, thus minimizing the risk of a military takeover. He might, though we consider it unlikely, resign, castigating conservative opposition and

Congressional inaction. On balance, we believe that Goulart and the present constitutional system will probably survive up to the October 1962 elections. It is less likely that the present Council of Ministers will last that long.

30. The present regime will face its first electoral test in the October 1962 elections for Congress and for State Governors. Given the multiplicity of political parties and interests in Brazil, the results are likely to be inconclusive. It is possible that the elections may provide opportunity for a political comeback by ex-President Quadros, who could legally become Prime Minister if his supporters control the new Congress. Despite the bad taste left in many mouths by his sudden resignation, Quadros has apparently not completely lost the magnetic appeal which swept him into office in early 1961. Ex-President Kubitschek, who has retained his personal popularity, is now a Senator and seems to have his eye on the Presidency in 1965 with restoration of full powers. Goulart might also emerge in a significantly strengthened position, especially since the growth of pressure for social and economic change might result in election of a new Congress considerably more leftist in orientation than the present one.

31. During the period of this estimate Brazilian foreign policy will probably be less venturesome than it promised to be under Quadros. At least until the October 1962 elections, the need for large-scale US financial assistance will pose some restraint on Brazilian policy. For this reason, and because of domestic political considerations, the present government will probably not have as truculent an attitude toward the US as did Quadros. Although Brazil has already re-established diplomatic relations with the USSR, development of diplomatic and economic ties with Bloc countries will probably not go much beyond the existing framework. Brazil's aspirations to great power status have obviously been set back, at least for the present, and the problem of getting along with Brazil's Latin American neighbors will loom larger in Brazilian thinking. Nevertheless, Brazil will

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probably continue to emphasize the "independent" character of its foreign policy. For these reasons it will almost certainly continue to oppose sanctions against Castro, although

it would probably agree to some kind of limited action if it seemed certain that most of the major Latin American states were disposed to take such steps.

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